Ministry of Transport
TE MANATŪ WAKA

BRIEFING

Funding Auckland light rail

Reason for this briefing	In March 2019, you will be considering the preferred delivery approach for Auckland City Centre to Māngere (CC2M) light rail. We are seeking to engage with you to advance thinking on how an NZ Transport Agency-led model could be funded. This briefing assists your consideration of the potential funding approach by providing initial advice on the wider land transport investment context and possible options to address the funding challenge around CC2M light rail.
Action required	Discuss this briefing with officials and indicate what options you would like to explore to enable delivery of CC2M light rail.
Deadline	9.30am, Monday 17 December 2018
Reason for deadline	We are meeting with you to discuss this advice at this time. Following our discussion, we will develop the funding approach for the NZ Transport Agency-led delivery model to inform our advice assessing the NZSF/CDPQ model.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Bryn Gandy	Deputy Chief Executive, Strategy and Investment	[redacted]	
Helen White	Manager Investment	[redacted]	✓
[redacted]	Senior Adviser Investment	[redacted]	

Withheld under section 9(2)(a) of the Official Information Act 1982

MINISTER'S COMMENTS:

Date:	14 December 2018	**Briefing number:**	OC180895 (Ministry of Transport)
Attention:	Hon Phil Twyford (Minister of Transport)	**Security level:**	In-Confidence

Minister's office actions

☐ *Noted* ☐ *Seen* ☐ *Approved*

☐ *Needs change* ☐ *Referred to*

☐ *Withdrawn* ☐ *Not seen by Minister* ☐ *Overtaken by events*

Executive summary

1. In March 2019, we will be providing you with advice on the preferred model for funding, delivering and operating Auckland City Centre to Māngere (CC2M) light rail. This will provide a complete assessment of the model proposed by the NZ Super Fund (NZSF) and its joint venture partner, Caisse de dépôt et placement du Québec (CDPQ), alongside an NZ Transport Agency-led model (i.e. the status quo).

2. As part of our advice, we will need to assess the approach to funding CC2M. We are seeking to engage with you to advance thinking on how an NZ Transport Agency-led model could be funded. We will also be engaging with NZSF/CDPQ separately to understand the funding approach under their model.

3. CC2M light rail is a significant, long-term investment and there is a funding challenge for the National Land Transport Fund (NLTF) to be able to deliver the project over the next 30 years while maintaining sufficient revenue to fund the Government's other commitments.

4. The following principles should inform your consideration of the approach to addressing this funding challenge:

   4.1. financing options should be supported by a revenue stream and balance the trade-off between current needs and flexibility to address future needs

   4.2. funding should be allocated nationally based on needs, and government intervention should seek to address significant or historical imbalances between regions

   4.3. the choice of funding sources should:

   - be consistent with who benefits from an investment; and
   - incentivise relevant parties (like Auckland Council) to support the delivery of broader benefits (i.e. they should have 'skin in the game').

5. Applying the above principles, addressing the funding challengeis likely to require a combination of some or all of the following options:

   [redacted]

   5.2. the NZ Transport Agency increasing the contribution to CC2M light rail from the rapid transit activity class to more than the $1.8 billion assumed in ATAP. While this assumption could reduce the upfront capital requirements of the project, it imposes a significantly high longer-term cost that will be difficult to sustain using the NLTF alone A higher NLTF contribution will help to reduce the total life-cycle costs.

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   5.3. the NZ Transport Agency seeking funding from other sources ([redacted] Auckland Council, value capture, Crown) for upfront capital and/or debt financing costs. Fully funding CC2M light rail from the NLTF is unlikely to appropriately reflect the incidence of the benefits of the project or place an incentive on the agencies that will need to support delivery of the broader outcomes the project is intending to achieve.

6. We consider options that require the NLTF to fully fund and finance CC2M light rail are unlikely to reflect the principles we have highlighted and will make it more difficult to deliver the Government's other commitments. If you wished for the NLTF to fully fund and finance the project, you could consider options that:

   6.1. reallocate funding from other activity classes to the rapid transit activity class

   6.2. increase the revenue available from the NLTF.

7. We recommend that you discuss this briefing with officials and indicate what options you would like us to explore to develop a preferred funding approach for CC2M light rail under an NZ Transport Agency-led delivery model. You may also wish to discuss this advice with the Minister of Finance and your other Cabinet colleagues.

8. Following our discussion, we will develop the funding approach for the NZ Transport Agency-led delivery model to inform our advice in March 2019 assessing the NZSF/CDPQ delivery model.

9. We will be providing you with further advice on the longer-term pressures on the NLTF as you begin to consider your priorities for GPS 2021.

Recommendations

10. The recommendations are that you:

(a)	**discuss** this advice with officials	Yes/No
(b)	**indicate** which of the following options you would like us to provide further advice on:	
	• longer-term financing options	Yes/No
	• increasing the contribution for CC2M light rail from the rapid transit activity class	Yes/No
	• investigating other funding sources	Yes/No
	• reallocating funding from other activity classes to the rapid transit activity class	Yes/No
	• increasing the revenue available to the NLTF	Yes/No

Helen White
Manager Investment

MINISTER'S SIGNATURE:

Hon Phil Twyford
Minister of Transport

DATE:

Purpose of briefing

1. This briefing provides you with initial advice on the wider land transport investment context and possible options for how the Auckland City Centre to Māngere (CC2M) light rail could be funded through an NZ Transport Agency-led delivery model. We want to engage with you now to advance thinking on how an NZ Transport Agency-led model could be funded.

2. Our discussion will inform advice we will provide in March 2019 on the preferred model for funding, delivering and operating CC2M light rail. That advice will provide a complete assessment of the proposal from the NZ Super Fund (NZSF) and its joint venture partner Caisse de dépôt et placement du Québec (CDPQ) alongside an NZ Transport Agency-led model (i.e. the status quo). We will be engaging with NZSF/CDPQ separately to understand the funding approach under their proposed model.

The funding approach to CC2M light rail will need to consider the longer-term pressures on the land transport investment system

3. You are currently considering a number of investments that will form part of the Government Policy Statement on land transport (GPS) for 2021.

4. The NZ Transport Agency Board will take project-specific decisions based on signals provided in the GPS. This includes developing an investment programme with regard to the 10-year revenue forecast.

5. The Ministry has a responsibility to advise you on the short-term (in the current or next GPS), the medium-term (5 to 15 years) and long-term (15 years and beyond) pressures on the National Land Transport Fund (NLTF). This includes future transport infrastructure commitments and alternative revenue options.

6. In the next GPS, you will be considering funding for:

Table 1 – Indicative costs and timing for investments under consideration for GPS 2021

Project	Indicative cost and timing
LGWM phase one	$3.2 billion over 30 years (includes financing and operating costs).
[redacted]	[redacted]
Safety	$250-750 million per annum (high-level estimate that would include state highway and local road infrastructure investment, speed management, safety cameras and processing system and driver licensing activities)
KiwiRail capital requirements	$2.3 billion for below rail infrastructure over 10 years to maintain a resilient and reliable network
Commuter rail capital requirements	[redacted] for below rail infrastructure over 10 years ([redacted] billion for Wellington and [redacted] billion for Auckland). [redacted]
Transport Green Card	$51 million per year (based on the current budget bid)

7. When developing GPS 2021, you will be able to prioritise investments, consider revenue settings, co-fund investments or set financing principles.

8. As part of the GPS 2021 process we will also advise you on the broader pressures on the NLTF. These include costs arising from climate-related events, and the potential to bring forward investment in urban growth – which will also bring forward some transport spending.

9. We will advise you further on these next year, and the Ministry has work underway to provide a more comprehensive, system-level picture that will allow options for responding to transport funding pressures to be considered further out – where choices are greater (including choices to move away from pay-as-you-go approaches) and there is more flexibility.

There is a significant funding challenge to delivering CC2M light rail over the next 30 years while maintaining sufficient revenue for other commitments

10. The NZ Transport Agency has undertaken financial modelling to provide an outlook for the NLTF over the next 30 years. The following are very high-level estimates based on a set of assumptions and should therefore be treated as illustrative only. More detailed modelling will be needed to assess different funding options. Based on the modelling there is likely to be around:

   10.1. $166 billion revenue available for investment from the NLTF over the next 30 years. This assumes fuel tax increases being given effect in the next two years, and revenue increasing annually in line with inflation (2 percent) from 2025.

   10.2. $109 billion expenditure at the ‘bare minimum’ to maintain and operate the existing network. This takes into account funding for base operations ($91 billion), existing PPPs and other capital commitments ($10 billion), and limited safety and resilience expenditure ($8 billion). This level of spending would reduce levels of service on the network as investment would not keep up with demand growth.

   10.3. $57 billion revenue available for expenditure on <u>any</u> infrastructure improvements and consequential operational costs (at a small, medium or large scale) to either maintain or improve service levels

11. One possible way of thinking about the ways in which the revenue for infrastructure improvements could be used, based on the commitments the government is considering, is:

   11.1. assuming policy settings are to maintain service levels across State Highway improvements, local road improvements, regional improvements and walking and cycling this could cost roughly $28 billion. This number is based on current GPS mid-points for these activity classes levels projected over 30 years in line with inflation.

   11.2 assuming this level of service is maintained on the above activity classes, there would be $29 billion left to deliver activities through the remaining rapid transit, transitional rail, public transport and road safety activity classes to maintain and improve service levels, including the commitments listed in Table 1.

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12. [redacted]

13. A total of $1.8 billion was identified in the Auckland Transport Alignment Project 2018 for the CC2M and the City Centre to North-West lines. The GPS noted that funding for rapid transit would be reliant on funding and financing arrangements with other parties.

14. We have updated you on the business case in a separate briefing (OC181054 refers), which highlights this funding challenge. In the briefing, we advised that the rapid transit activity class does not have sufficient funding to fully fund the project.

We recommend taking a principled approach when considering options to address the funding challenge

Financing options should be supported by a sustainable revenue stream and balance the trade-off between current needs and flexibility to address future needs

15. Financing can help to address affordability challenges and bring forward projects with significant long-term benefits by spreading the costs of investment across multiple generations. This approach requires an assessment of the trade off between current needs and flexibility in the future to allocate expenditure.

16. While financing might reduce the upfront funding requirements for an investment, it still requires an identifiable and sustainable revenue stream to support the debt (whether that is solely the NLTF or in combination with other revenue sources).

17. The NZ Transport Agency, as an independent Crown entity, has freedom to determine its debt management practices, but requires approval from the Minister of Transport and the Minister of Finance before entering into any debt arrangement, or from Cabinet in the case of a Public-Private Partnership.

18. The NZ Transport Agency has established its own prudent financing limits with targets for debt servicing costs to remain under 10 percent limit of annual NLTF inflows and 25-33 percent of discretionary expenditure. There is some room to take on additional debt, but doing so for CC2M is likely to place it in breach of its limits.

19. In considering any financing proposals from the NZ Transport Agency, we recommend that you consider the following principles:

    - Debt funding can be a reasonable option for bringing forward projects where they have significant and multi-generational benefits
    - The level of debt in the NLTF should balance the current investment needs against flexibility to address future investment needs.

Funding should be allocated nationally based on needs, and Government intervention should seek to address significant or historical imbalances between regions

20. The land transport investment system is set up to respond to the strategic priorities signalled by the Government through the GPS, by targeting the investments that address the most significant needs across the country.

21. This approach allows for funding decisions to anticipate needs or challenges ahead of time and should avoid situations where infrastructure needs to be retrofitted, often at a more significant expense.

22. In practice, funding decisions have also been influenced by consideration of what might constitute a 'fair share' of the NLTF for each region. This has potential merit in ensuring funding decisions take account of regional imbalances and inequities, with the trade-off that the NZ Transport Agency may have less flexibility to respond to certain pressures or needs.

23. The Government has levers to address potential regional funding imbalances, for instance the Provincial Growth Fund. The NZ Transport Agency also has tools, including the recently revised financial assistance policy, that support financially constrained councils to deliver high-priority investments.

24. We recommend that you consider the following principles:

- Funding should be allocated nationally based on needs and how closely investments align with the GPS
- Government intervention can help to address the effects of significant or historical imbalances in investment.

The choice of funding sources should be consistent with who benefits from an investment and incentivise the relevant parties to support the delivery of broader benefits

25. In the past, transport investment decisions have focused on delivering transport benefits to transport users who bear the costs of these investments. The dedication (hypothecation) of transport taxes forms part of this system and creates an incentive on the NZ Transport Agency to deliver transport benefits that justify the level of revenue raised.

26. The most recent GPS and ATAP marked a shift in thinking around transport investment, particularly to consider benefits that go beyond transport system use. The shift in approach to transport investment may warrant a shift in thinking about funding sources, including if a broader range of funding sources should be leveraged together to deliver a project with broader benefits.

27. A broader range of funding sources would also help to create incentives on the parties that have some responsibility for delivering the broader outcomes sought through the GPS and ATAP. For example, if Auckland Council had to provide a financial contribution for CC2M Light Rail, it would be more likely to prioritise enabling more intensification along the route to enhance value uplift.

28. In a hypothecated transport fund, there will be limited circumstances where Crown funding from general taxation should provide further financial support. Crown support should be limited to projects that provide significant and immediate national benefits and in situations where other sources of funding have proven to be inadequate.

29. In thinking about broader funding arrangements, we suggest that you consider the following principles:

- Funding arrangements should transparently allocate costs between the respective parties who stand to benefit from the investment (e.g. users of a new transport service, other network users who benefit indirectly, property owners, developers)
- Funding arrangements should create incentives for relevant parties to support the delivery of broader benefits (i.e. they should have ‘skin in the game’).

30. The Ministry has work underway that we intend will make it easier to combine NLTF funding with other funding sources.

There are several options for you to consider

31. Applying the above principles, addressing the funding challenge is likely to require a combination of some or all of the following options, on which we can provide further advice:

[redacted]

31.2. the NZ Transport Agency increasing the contribution to CC2M light rail from the rapid transit activity class to more than the $1.8 billion assumed in ATAP. Since ATAP concluded, further work has shown that while this assumption could reduce the short-term capital requirements of the project, it imposes a significantly high longer-term cost that will be difficult to sustain using the NLTF alone. A higher NLTF contribution will help to reduce the total life-cycle costs.

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31.3. the NZ Transport Agency seeking funding from other sources ([redacted], Auckland Council, value capture, Crown) for upfront capital and/or debt financing costs. Fully funding CC2M light rail from the NLTF is unlikely to appropriately reflect the incidence of the benefits of the project or place an incentive on the agencies that will need to support delivery of the broader outcomes the project is intending to achieve.

32. We consider options that require the NLTF to fully fund and finance CC2M light rail are unlikely to reflect the principles we have highlighted and will make it more difficult to deliver the Government's other commitments. If you wished for the NLTF to fully fund and finance the project, we could provide further advice on options that:

32.1. reallocate funding from other activity classes to the rapid transit activity class

32.2. increase the revenue available from the NLTF.

Next steps

33. We recommend that you discuss this briefing with officials and indicate which options you would like us to explore to develop a preferred funding approach for CC2M light rail under an NZ Transport Agency-led delivery model. You may also wish to discuss this advice with the Minister of Finance and your other Cabinet colleagues.

34. Following our discussion, we will develop the funding approach for the NZ Transport Agency-led delivery model to inform our advice in March 2019 assessing the NZSF/CDPQ delivery model.

35. We will also be providing you with further advice on the longer-term pressures on the NLTF as you begin to consider your priorities for GPS 2021.